

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 6979

BILL NUMBER: HB 1386

DATE PREPARED: Jan 30, 2002

BILL AMENDED: Jan 29, 2002

SUBJECT: Various Insurance Matters.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill makes conforming amendments to sections of the Indiana Code that refer to insurance agents and limited insurance representatives. The bill provides for payment of advisor costs by regulated companies when the cost is statutorily required to be borne by the company. It imposes limits on the amount a domestic insurance company may invest in certain securities. The bill provides rule making authority for maintenance by a custodian of the securities of an insurance company.

This bill amends the law concerning insurance administrators and provides for reciprocity in the licensure of insurance administrators. The bill provides that notice of nonrenewal of a commercial property and casualty insurance policy or an automobile insurance policy is not required if the insured is transferred to an affiliate of the insurer in certain circumstances.

This bill replaces and repeals the current law concerning farm mutual insurance companies, providing for standard and extended farm mutual insurance companies. The bill amends the law concerning reinsurance intermediaries and provides for reciprocity in the licensure of reinsurance intermediaries. The bill amends the clean claims law that specifies the period within which the administrator of a state employee health benefit plan, an insurer, or a health maintenance organization must pay, deny, or notify a provider of claim deficiencies. The bill provides for treatment of a segregated investment account in the event of liquidation of an insurer. The bill also deletes a provision requiring an annual report to the Department of Insurance concerning the county sheriff pension trust fund. This bill makes conforming amendments. The bill also makes a technical change.

Effective Date: (Amended) January 1, 2002 (retroactive); Upon Passage; July 1, 2002.

Explanation of State Expenditures: (*Revised*) *Clean Claims:* No additional expenditures expected.

Review Fees: The Department of Insurance may retain outside technical support for the audit of company files. The cost of these services shall be paid by the company under review. The Department may incur small

administrative costs in reviewing and forwarding the invoices submitted for the outsourced services. This codifies current practice, thus no new expenditures are anticipated.

Nonresident Administrator License: A person may file for a nonresident administrator license if they are currently licensed in a state that has comparable licensing requirements. The individual must file a statement of licensure and submit a filing fee on or by September 15 of each year. If the Commissioner is able to verify the nonresident administrator's homestate license through an electronic database and duly notifies the applicant, no filing is required. The total number of anticipated filings and associated expense is unknown at this time, but are anticipated to be minimal.

Farm Mutual Insurance: The Department of Insurance will experience a negligible increase in workload. This bill increases reporting requirements and creates a new insurance category. In addition, this bill provides provision for administrative review of files and transactions of farm mutual companies.

Under current law, farm mutual insurance companies are not allowed to sell policies in incorporated areas of the state. This bill rescinds the restrictions on farm mutual insurance companies regarding the area in which they can sell their policies. Under the provisions of this bill, standard farm mutual companies may sell insurance in all areas of the state except Class 1 cities. Extended farm mutual companies may sell insurance in all areas of the state including Class 1 cities.

The bill sets criteria that allow farm mutual insurance companies to obtain a certificate of authority as an extended farm mutual insurance company. Extended companies can provide the same types of policies as a standard farm mutual company as well as other kinds of insurance approved by the Commissioner.

Both standard and extended farm mutual insurance companies are limited to the amount of annual written direct premium they can write and still be certified a farm mutual insurance company. If the amount of annual written direct premium exceeds \$10 M, they must apply for certification as a multiple line insurance company.

The funds and resources required to administer any additional workload could be supplied through a variety of sources, including the following: (1) Existing staff and resources not currently being used to capacity; (2) Existing staff and resources currently being used in another program; (3) Authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) Funds that, otherwise, would be reverted; (5) Funds derived from filing fees or (6) New appropriations.

Background: There are currently 41 farm mutual insurance companies in the state. It is anticipated that less than 10% of these companies would become certified as an extended company in the first year. As time progresses, more standard companies may seek the extended certification. Department staff anticipate that administrative costs associated with overseeing these new extended companies would be minimal.

Explanation of State Revenues: (Revised) *Nonresident Administrator License:* A person may file for a nonresident administrator license if they are currently licensed in a state that has comparable licensing requirements. The individual must file a statement of licensure and submit a filing fee on or by September 15 of each year. If the Commissioner is able to verify the nonresident administrator's homestate license through an electronic database and duly notifies the applicant, no filing is required. The total number of anticipated filings and associated fees is unknown at this time.

Farm Mutual Insurance: The state revenues are threefold. This bill requires farm mutual insurance

companies to pay filing fees periodically. The fees are set forth in IC 27-1-3-15. All farm mutual insurance agents must obtain an insurance producer license from the state. It is estimated that between 50 and 60 agents would require licensure at a cost of \$40 per license. The filing and license fees are to be deposited in the General Fund and the Department of Insurance Fund. In addition, the Commissioner may levy a civil penalty not in excess of \$25,000 if the company sells insurance without a certificate of authority or sells, issues, delivers, advertises, or makes any kind of insurance not specified in their certificate. Civil penalties are to be deposited in the state General Fund.

Insurance Administrators: This bill contains new provisions for insurance administrators. The bill allows the Commissioner of Insurance to either deny, revoke, or suspend the license of an insurance administrator under certain conditions. In addition, the Commissioner may impose a civil penalty not to exceed \$25,000 per act or violation in lieu of license suspension. The amount of revenue that could be collected under this provision is unknown at this time.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Insurance.

Local Agencies Affected:

Information Sources: Cynthia Donovan, Manager of Securities and Financial Services Operations, Department of Insurance, (317) 232-2408; Susan Andrews, Executive Vice President, Mutual Insurance Companies Association of Indiana, (317) 848-5067. Greg Thomas, Chief Deputy Commissioner, Department of Insurance, (317) 232-2406.